



CITY OF DURHAM | NORTH CAROLINA

DATE: May 22, 2014

TO: Thomas J. Bonfield, City Manager

THROUGH: Wanda S. Page, Deputy City Manager

FROM: Bertha T. Johnson, Director of Budget and Management Services
David Boyd, Finance Director

RE: **FY 2013-14 Third Quarter Financial Report**

Executive Summary

The administration is pleased to present the Third Quarter Financial Report for FY 2013-14. This report is based on nine months of financial information. The administration presents each quarterly report to City Council at a regularly scheduled work session. A presentation of this report will be provided to the City Council at the May 22nd work session. The report will also be published on the City's website at: <http://durhamnc.gov/ich/as/bms/Pages/Quarterly-Reports.aspx>

Attached Exhibits

A number of charts and tables are attached to this document to provide the City Council with additional information on the City's financial status in key areas. Below is an overview of the attachments and highlights of activity.

Exhibits 1 & 1A: General and Debt Services Funds Budget-to-Actual Summary and Year End Projections by Department

This provides a summary of budget and actual general fund revenues and expenditures for all departments through the third quarter of FY2014. For the last five fiscal years, it has been extremely difficult to forecast revenues due to economic conditions. The City's response to the challenging economic environment has been to monitor revenue collections and make targeted reductions as required to meet the revenue expectations. It is currently projected that all departments will end the year within budget. The full year estimate indicates that departments will spend \$2.3M less than budgeted, primarily driven by savings in personal services (\$1.6M).

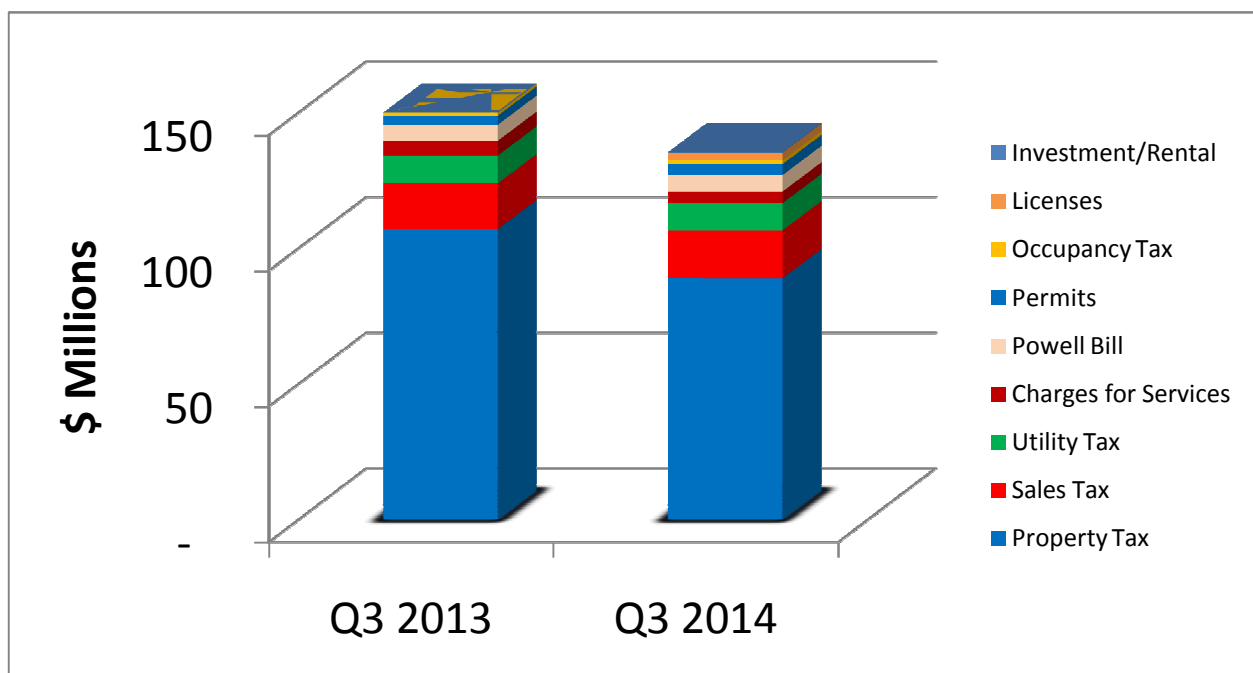
General Fund Property Taxes: Collections are at \$88,995,988 compared to \$107,100,800 for the same period in FY2013 (negative variance of \$18.1M or 16.9%). That shortfall is due to an accounting change; the methodology used to book property taxes to Debt Service, Transit, and Housing Funds has changed, with more property tax being booked to the other funds earlier this year. It is projected that \$0.7 M less than the total amount budgeted for property taxes will be collected due to changes in the timing of motor vehicle property tax collections resulting from the Tax & Tag Together program implemented by the State and lower than anticipated real property growth. The FY2014 budget projected a 98.75% collection rate based on the collections at the 3rd Quarter FY2013. The final collection at June 30, 2013 matched the projection at 98.75%. The 2013 tax bills have been mailed. With the exception of taxes on motor vehicles, property tax payments are to be paid in full by January 5th, 2014.

Sales Taxes: Collections were \$17.6M, or 4.8% higher than the same period last year; this rate is expected to be sustained as refunds are processed by the state and current projections expect the year to end with collections up approximately 5.5% resulting in a negative variance for the year of about \$375,000.

Other Revenues: Utility franchise taxes are down by \$195,245 (-1.9%) to \$10,029,275 compared to \$10,224,520 for the same period last fiscal year. Licenses are down by \$99,907 (-3.5%) to \$2,772,374 compared to \$2,872,281 for the same period last fiscal year. Permits are up \$683,315 (+20.2%), to \$4,059,726 compared to \$3,376,411 for the same period last fiscal year. At \$1,357,498 occupancy tax collections are up by \$87,037 (+6.9%) compared to \$1,270,461 for the same period last fiscal year, and Powell Bill revenues are up slightly by \$167,498 (+2.8%), \$6,051,342 compared to \$5,883,844 for the same period last fiscal year. Charges for services are down by \$1,172,667 (-21.5%) to \$4,285,016 compared to \$5,457,683 for the same period last fiscal year. Finally, investment and rental income is down by \$42,168 (-19.7%), \$172,402 compared to \$214,570 for the same period last fiscal year.

The following chart shows a comparison of General Fund major revenues for Quarter 3 in 2013 and 2014. As shown, total major revenues year-to-date for FY2014 are \$135,351,354 compared to \$153,189,842 for FY2013, a negative difference of \$17,838,488 (-11.6%).

General Fund Major Revenues



General Fund Major Revenues Stoplight










Property Tax		Revenues have decreased 16.90% compared to Third Quarter FY13
Sales Tax		Revenues have increased 4.78% compared to Third Quarter FY13
Utility Tax		Revenues have decreased 1.91% compared to Third Quarter FY13
Licenses		Revenues have decreased 3.48% compared to Third Quarter FY13
Permits		Revenues have increased 20.24% compared to Third Quarter FY13
Occupancy Tax		Revenues have increased 6.85% compared to Third Quarter FY13
Powell Bill		Revenues have increased 2.85% compared to Third Quarter FY13
Charges for Services		Revenues have decreased 21.49% compared to Third Quarter FY13
Investment/Rental		Revenues have decreased 19.65% compared to Third Quarter FY13

Exhibit 2: Enterprise Fund Budget-to-Actual

This provides a summary of budgeted and actual revenues and expenditures in each enterprise fund. The results for each major fund are summarized below.

Water & Sewer Operating Fund

For the third quarter of FY2014, results show that operating revenues were 77% of the budgeted operating revenue while operating expenses were 59% of the budgeted operating expenses. While consumption in the first half of the year was lower than the previous year, it has increased recently so that year-to-date it is about 1% over the first nine months of FY 12-13.

While billed consumption is up slightly, the positive results realized in operating revenues during the third quarter are also clearly attributable to the recent increase in construction which has resulted in year-to-date amounts greatly in excess of the annual budget. In addition, the recent approval of initiation fees from \$15 to \$50 after the FY 13-14 budget adoption has contributed to the increase in operating income.

Since consumption is influenced by weather patterns, usage may increase or decrease during the remainder of the fiscal year. If the current levels of consumption and new construction continue through the fourth quarter, it is likely that operating revenues will be slightly over budget for the fiscal year despite a relatively wet, cool spring.

The deficit in non-operating revenues results from the decision to transfer \$3 million of prior year surplus (appropriated fund balance) from operating reserves into CIP funding.

Overall, revenue shortfalls of \$1.6 million are expected to be offset by expenditure savings of \$2.2 million resulting in a yearend surplus of \$0.6 million.

The Water and Sewer Fund is a self-sufficient enterprise fund deriving all revenues from charges to customers and receives no tax support. All excess funds of revenues over operating and debt expenditures are dedicated to capital projects. The fund has consistently finished each fiscal year in a strong positive financial position.

As evidenced by the FY2014-2019 Capital Improvement Program (CIP) budget, both water and wastewater capital needs are substantial with over \$28 million approved in the current year CIP. The anticipated funding from future revenue bonds requires the ability to maintain a healthy current revenue stream for the long term. The Department budgeted a \$19.9M transfer to the CIP from FY2013-2014 and will continue its efforts to maximize revenues and ensure rate-payers' dollars are expended efficiently and effectively.

Water and Sewer Capital Facility Fee Fund

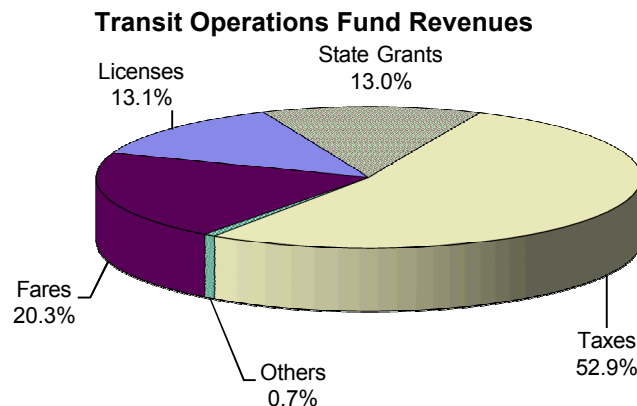
Capital Facility Fees are derived from charges to new development or facility expansion that result in a greater demand on the City's water supply, water treatment capacity, and wastewater treatment capacity. These fees are transferred to the Water and Sewer Construction Fund and are used to support capital improvements.

Capital Facility Fees do not count as current revenues in the computation of revenue bond covenant debt service coverage. Thus, any increase in these fees will help provide for future capital needs, but not reduce any need for consumption and service charge fee increases related to revenue bond debt covenants.

Third quarter revenues are 96.8% of budget and over \$300,000 greater than the same prior year period. This is the second year of a significant year-over-year increase, indicating a positive current trend in local development and growing utility customer base. Expenditures consist solely of transfers to the Water and Sewer Construction Fund, and as such, are currently on pace to exceed the \$2.8M projected in the budget.

Transit Operations Fund

Third quarter results project year-end revenues to be slightly below budget. Ridership numbers will continue to be monitored, and routes have been made more efficient with fewer riders requiring transfers.



The Transit Operations Fund receives a significant amount of support from property taxes (about 3.87 cents per \$100 on the tax rate). These account for 52.9% of budgeted fund revenues in the FY2014 adopted budget. With fare increases last approved in FY2004, charges to system riders return about 20.3% of the cost of operations. The Transit Operations Fund is not inclusive of federal transit grants, about \$5M for FY2014, which are also used to support the DATA transit system personnel and maintenance costs.

Solid Waste Disposal Fund

The Solid Waste Disposal Fund is projected to receive less revenue than originally budgeted for FY2014. This is due to lower revenues from the State solid waste disposal tax. The Fund was budgeted to receive 41% of revenue through charges and other non-tax revenues. This revenue is collected a month after billed. The remaining revenue is provided by the General Fund. The fund is projected to end under budget for expenditures. This is primarily attributable to lapsed salary and operational savings.

Stormwater Management Fund

The Stormwater Management Fund provides for the management and maintenance of operational expenses of stormwater activities which include street cleaning. A transfer is also made from the operating fund to Stormwater Capital Improvement Program project funds for private property and watershed planning and design projects. The Stormwater fund is a self-sufficient enterprise fund and receives no tax support. At the end of the third quarter, the Stormwater Fund has received 89.5% of projected revenues.

Parking Facilities Fund

At the end of the third quarter, the Parking Facilities Fund is projected to come in at budget for the fiscal year.

Ballpark Fund

The Ballpark Fund currently relies on the General Fund for 59% of the budgeted funding. The fund is projecting to be on target for year end. This is primarily due to personnel savings which will cover higher than anticipated utilities charges. Revenues are projected to be above target.

Performing Arts Center

At the end of the third quarter, the Performing Arts Center Fund is projected to come in at slightly above budget for the fiscal year.

DPAC Repair and Maintenance Fund

This fund was established as a capital reserve fund for the Durham Performing Arts Center. Revenues generated from ticket surcharge fees are initially recognized in the Durham Performing Arts Center fund then transferred to this fund for capital expenditures. Currently, fund expenditures are anticipated to end below budget, due to lower capital improvement costs.

Exhibit 3: Special Revenue & Grant Funds

This provides a summary of spending in each of our major grant funded programs.

Exhibit 4: Investments

This provides a summary of the allocation of our investment portfolio as well as the investment earnings so far during the current fiscal year.

Exhibit 5: Risk

This provides a report of claims payments made to liability claimants in accordance with Council Resolution #8810.

Exhibit 6: Contracts

This provides a summary of the number and type of contracts authorized so far during the year.

Exhibit 7: Impact Fees

This table shows the amount of impact fee funds available by zone for streets, open space and parks. Project obligation by current ordinance is also shown. Revenues shown are actual revenues year-to-date.

Exhibit 8: Tax Levy Analysis

This provides tax levy analysis and shows the year-to-date tax collection percentage.

Exhibit 9: Downtown Revitalization

This provides detail of activity in association with Downtown Revitalization.

Exhibit 10: Planned Debt Issuance

This report summarizes any actual debt issuance so far for the current fiscal year.

Exhibit 11: Donations Report

This report lists amounts donated to the City of Durham from various sources.

Exhibit 12: Assessment Collection Report

This report lists the status of the delinquent assessment accounts.

Exhibit 13: CIP Stoplight Report

This report summarizes the progress of all Council approved capital projects.